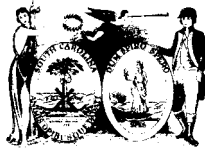


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

January 27, 2003

Ms. Carol Disbro, Director of Reimbursement
Integrated Health Services, Inc.
The Highlands
910 Ridgebrook Road
Sparks, Maryland 21152

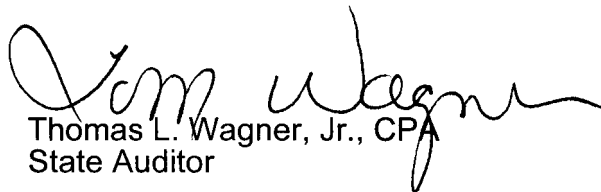
Re: AC# 3-MGW-J8 – Magnolia Manor – Greenwood, Inc.

Dear Ms. Disbro:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

MAGNOLIA MANOR – GREENWOOD, INC.

GREENWOOD, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-MGW-J8**

AGREED-UPON PROCEDURES REPORT

ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

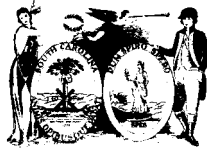
STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 18, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Magnolia Manor – Greenwood, Inc., for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. The management of Magnolia Manor – Greenwood, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

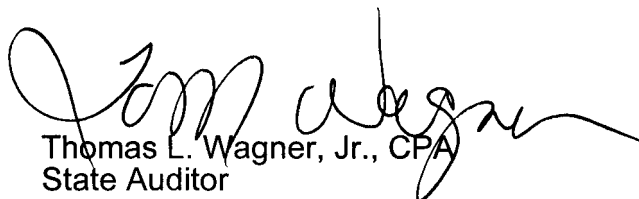
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Magnolia Manor – Greenwood, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Magnolia Manor – Greenwood, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
October 18, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

MAGNOLIA MANOR - GREENWOOD, INC.

Computation of Rate Change
For the Contract Period
Beginning October 1, 2000
AC# 3-MGW-J8

10/01/99-
09/30/00

Interim Reimbursement Rate (1)	\$93.52
Adjusted Reimbursement Rate	<u>91.86</u>
Decrease in Reimbursement Rate	\$ <u><u>1.66</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

MAGNOLIA MANOR - GREENWOOD, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-MGW-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$41.44	\$47.61	
Dietary		8.65	10.24	
Laundry/Housekeeping/Maintenance		<u>7.47</u>	<u>8.89</u>	
Subtotal	<u>\$4.67</u>	57.56	66.74	\$57.56
Administration & Medical Records	<u>\$.22</u>	<u>11.17</u>	<u>11.39</u>	<u>11.17</u>
Subtotal		68.73	<u>\$78.13</u>	68.73
<u>Costs Not Subject to Standards:</u>				
Utilities		1.66		1.66
Special Services		1.41		1.41
Medical Supplies & Oxygen		4.83		4.83
Taxes and Insurance		1.32		1.32
Legal Fees		<u>.04</u>		<u>.04</u>
TOTAL		<u>\$77.99</u>		77.99
Inflation Factor (3.00%)				2.34
Cost of Capital				8.00
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				.22
Cost Incentive				4.67
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.14)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>1.03</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$91.86</u>

MAGNOLIA MANOR - GREENWOOD, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-MGW-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,356,238	\$ 190 (5)	\$ 4,014 (4) 5,588 (5) 38,501 (6)	\$1,308,325
Dietary	272,677	277 (5)	-	272,954
Laundry	59,268	98 (5)	-	59,366
Housekeeping	124,112	230 (5)	-	124,342
Maintenance	52,176	52 (5)	-	52,228
Administration & Medical Records	346,808	10,146 (4) 6,108 (5) 38,501 (6)	5,802 (2) 1,571 (5) 41,609 (7)	352,581
Utilities	52,516	-	-	52,516
Special Services	58,994	206 (5)	3,068 (7) 11,580 (8)	44,552
Medical Supplies & Oxygen	152,543	39 (8)	-	152,582
Taxes and Insurance	41,683	-	-	41,683
Legal Fees	1,192	-	-	1,192
Cost of Capital	247,185	11,305 (1) 15,230 (9)	13,794 (3) 7,378 (7)	252,548
Subtotal	2,765,392	82,382	132,905	2,714,869
Ancillary	47,327	-	-	47,327

MAGNOLIA MANOR - GREENWOOD, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-MGW-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Non-Allowable	337,987	5,802 (2)	11,305 (1)	388,510
		13,794 (3)	6,132 (4)	
		52,055 (7)	2 (5)	
	<u> </u>	<u>11,541 (8)</u>	<u>15,230 (9)</u>	<u> </u>
Total Operating Expenses	<u>\$3,150,706</u>	<u>\$165,574</u>	<u>\$165,574</u>	<u>\$3,150,706</u>
Total Patient Days	<u>31,569</u>	<u>-</u>	<u>-</u>	<u>31,569</u>
Total Beds	<u>88</u>			

MAGNOLIA MANOR - GREENWOOD, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-MGW-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 294,017	
	Cost of Capital	11,305	
	Accumulated Depreciation		\$ 249,751
	Nonallowable		11,305
	Other Equity		44,266
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	5,802	
	Administration		5,802
	To remove rental payments on a capital lease HIM-15-1, Section 110B		
3	Nonallowable	13,794	
	Cost of Capital		13,794
	To properly classify cost of capital interest expense State Plan, Attachment 4.19D		
4	Administration	10,146	
	Nursing		4,014
	Nonallowable		6,132
	To adjust Premiere fees to allowable HIM-15-1, Section 2304		
5	Restorative	190	
	Dietary	277	
	Laundry	98	
	Housekeeping	230	
	Maintenance	52	
	Medical Records	6,108	
	Special Services	206	
	Nursing		5,588
	Administration		1,571
	Nonallowable		2
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MAGNOLIA MANOR - GREENWOOD, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-MGW-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Medical Records Nursing	38,501	38,501
	To reclassify salaries to the proper cost center DH&HS Expense Checklist		
7	Nonallowable Administration Therapy Cost of Capital	52,055	41,609 3,068 7,378
	To adjust home office expense HIM-15-1, Section 2304		
8	Medical Supplies & Oxygen Nonallowable Special Services	39 11,541	11,580
	To remove Special (Ancillary) Services reimbursed by Medicare State Plan, Attachment 4.19D		
9	Cost of Capital Nonallowable	15,230	15,230
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$459,591</u>	<u>\$459,591</u>

Due to the nature of compliance reporting,
adjustment descriptions and references
contained in the preceding Adjustment
Report are provided for general guidance
only and are not intended to be all-
inclusive.

MAGNOLIA MANOR - GREENWOOD, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-MGW-J8

	<u>Old Beds</u>	<u>New Beds</u>
Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618
Inflation Adjustment	<u>2.2493</u>	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130	35,130
Number of Beds	<u>44</u>	<u>44</u>
Deemed Asset Value	1,545,720	1,545,720
Improvements Since 1981	88,491	88,491
Accumulated Depreciation at 9/30/98	<u>(507,172)</u>	<u>(449,916)</u>
Deemed Depreciated Value	1,127,039	1,184,295
Market Rate of Return	<u>.063</u>	<u>.063</u>
Total Annual Return	71,003	74,611
Return Applicable to Non-Reimbursable Cost Centers	-	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>
Allowable Annual Return	71,003	74,611
Depreciation Expense	52,262	57,093
Amortization Expense	67	66
Capital Related Income Offsets	(1,245)	(1,309)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>
Allowable Cost of Capital Expense	122,087	130,461
Total Patient Days (Actual)	<u>15,784</u>	<u>15,785</u>
Cost of Capital Per Diem	\$ <u><u>7.73</u></u>	\$ <u><u>8.26</u></u>

MAGNOLIA MANOR - GREENWOOD, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-MGW-J8

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 8.15
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$12.14</u>
Reimbursable Cost of Capital Per Diem	\$ 8.00
Cost of Capital Per Diem	<u>8.00</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

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